

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 /082 W
-----043639 090506Z /12
R 081720Z AUG 77
FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 7644

LIMITED OFFICIAL USE SECTION 1 OF 2 TEL AVIV 5851

E.O. 11652: N/A
TAGS: EFIN, IS
SUBJECT: 1977 BUDGET

REF: TEL AVIV 560, TEL AVIV 1931, TEL AVIV 5021

1. BEGIN UNCLASSIFIED. FINMIN EHRlich PRESENTED A REVISED FISCAL YEAR 1977 (APRIL 1977-MARCH 1978) STATE BUDGET TO THE KNESSET AUGUST 3. THE BUDGET PASSED ITS FIRST READING BY A VOTE OF 70 TO 34 AND WAS REFERRED TO THE FINANCE COMMITTEE. ALTHOUGH WIDELY HERALDED AS CONTAINING SEVERE CUTS, THE BUDGET TOTAL IN FACT IS IL 1.46 BILLION HIGHER THAN THE ORIGINAL STATE BUDGET PRESENTED BY EX-FINANCE MINISTER RABINOWITZ. ESTIMATES OF REVENUE HAVE INCREASED BY NEARLY IL 2.5 BILLION BECAUSE OF INCREASED TAX REVENUES DUE TO INCOME TAXES ON WAGE HIKES, SO THE PROJECTED DEFICIT IS NOW IL 4 BILLION COMPARED TO IL 5 BILLION PREVIOUSLY FORECAST. THE MAJOR REVISIONS ARE A CUT BACK IN SUBSIDIES WHICH WOULD HAVE BEEN PAID, A REDUCTION IN THE DEFENSE BUDGET, AND SLIGHT REDUCTIONS IN THE BUDGETS OF OTHER MINISTRIES.

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2. THE EMBASSY HAS OBTAINED FROM THE FINANCE MINISTRY THE FOLLOWING TABLE (EMBASSY TRANSLATION) DESCRIBING THE RESTRUCTURING OF THE OVERALL BUDGET.

IL MILLION

	EXPENDITURES	REVENUES	DEFICIT
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PROPOSED			
ORIGINAL			

BUDGET 122,500 117,500 5,000

INCREASES IN
ORIGINAL BUDGET
IF POLICIES

UNCHANGED 8,360 560

OF WHICH: WAGE
INCREMENTS

AFTER UTILIZING
RESERVES 2,100

SUBSIDIES IF NO
RISE IN PRICES
OF SUBSIDIZED
GOODS AND
SERVICES 4,700

ADDITIONAL
RESERVES 700

BINATIONAL
INDUSTRIAL
RESEARCH AND
DEVELOPMENT
FOUNDATION 560

NATIONAL
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INSURANCE
PAYMENTS 300

PROPOSED BUDGET
WITHOUT CHANGES
IN POLICIES 130,860 118,060 12,800

PROPOSED CHANGES
IN THE BUDGET (-)6,900 1,900 (-)8,800

(PAYMENT NOT
MADE BECAUSE
OF) RISE IN
PRICES OF
SUBSIDIZED
GOODS AND
SERVICES (-)4,700

REDUCTION IN
DEFENSE BUDGET (-)1,400

REDUCTION IN

OTHER MINISTRY

BUDGETS (-) 900

SPECIAL

COMPENSATION

TO LOW-INCOME

GROUPS 100

UPDATED BUDGET

PROPOSAL 123,960 119,960 4,000

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INFO OCT-01 AID-05 CIAE-00 COME-00 EB-08 FRB-03 INR-07

NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01

L-03 H-01 ISO-00 /082 W

-----043513 090507Z /12

R 081720Z AUG 77

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 7656

LIMITED OFFICIAL USE SECTION 2 OF 2 TEL AVIV 5851

2. WITHIN THE ABOVE EXPENDITURES, DEFENSE OUTLAYS ARE
 NOW PROJECTED AS FOLLOWS (SEE TEL AVIV 4725):

IL MILLION

	FY 76	FY 77	FY 77
	REVISED	ORIGINAL	UPDATED
TOTAL	34,010	40,970	40,120

BUDGET IN LOCAL

CURRENCY 15,985 19,710 19,360

SALARIES 3,600 4,700 5,250

TRANSFER

PAYMENTS,

PENSIONS, AND

REHABILITATION

PAYMENTS 935 1,200 1,200

CONSTRUCTION

AND FORTIFICATIONS 1,375 1,700 1,700

LOCAL PURCHASES
(GOODS AND
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SERVICES) 10,015 12,110 11,210

BUDGET IN FOREIGN
CURRENCY (IL
MILLION) 18,025 21,260 20,760

BUDGET IN FOREIGN
CURRENCY (IN
MILLIONS OF
DOLLARS) 1,750 1,720 1,680

FOREIGN
CURRENCY IN
CASH 300 250 210

U.S. GRANTS
AND CREDITS 1,450 1,420 1,420

U.S. GRANTS
AND CREDITS
NON-DESIGNATED -- 50 50

OF THIS AMOUNT:
LEVIES ON
IMPORTS (IL
MILLION) 2,230 2,570 2,510

VALUE ADDED
TAX (IL
MILLION) 1,210 1,580 1,540

FOREIGN CURRENCY IN CASH IS FOREIGN EXCHANGE AVAILABLE
TO THE DEFENSE MINISTRY FOR DIRECT PURCHASES ABROAD
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(USUALLY IN EUROPE). THE IMPORT LEVY AND V.A.T.
MUST BE PAID ON DEFENSE IMPORTS AND ARE THEREFORE
INCLUDED IN THE FOREIGN CURRENCY BUDGET EVEN
THOUGH THEY ARE ISRAELI POUND EXPENDITURES. BY
SUBTRACTING THESE PAYMENTS FROM THE FOREIGN EXCHANGE

BUDGET DENOMINATED IN POUNDS AND COMPARING THE RESULT WITH THE BUDGET DENOMINATED IN DOLLARS, AN IMPLIED AVERAGE EXCHANGE RATE FOR FY 77 CAN BE OBTAINED. THE EMBASSY CALCULATES IT AT ABOUT \$1.00 EQUALS IL 9.95. END UNCLASSIFIED.

3. BEGIN LIMITED OFFICIAL USE. COMMENT: MOST OF THE BUDGET CHANGES WERE PREPARED BY THE FINANCE MINISTRY STAFF SEVERAL MONTHS AGO FOR ACTION BY LABOR HAD IT RETAINED POWER, SINCE IT WAS WIDELY UNDERSTOOD THAT THE WAGE INCREASES WON IN THE PRE-ELECTION PERIOD HAD UNDERMINED THE PREMISES OF THE ORIGINAL BUDGET. IN THE ABSENCE OF A REDUCTION IN THE DEFICIT, SOME CALCULATIONS ARE THAT INFLATION IN FY 1977 WOULD HAVE REACHED 50 PERCENT, DOUBLE THE RATE FORECAST BY THE FORMER GOVERNMENT. THE PLANNED DEFICIT OF IL 4 BILLION STILL RESTS ON THE ASSUMPTION THAT INFLATION WILL BE KEPT IN THE 25-30 PERCENT RANGE. THE GOVERNMENT WILL WAIT UNTIL THE FY 1978 BUDGET PRESENTATION IN JANUARY TO MAKE THE BASIC CHANGES IN PRIORITIES WANTED BY THE LIBERAL-LIKUD ECONOMIC TEAM.LEWIS

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Status: NATIVE
Subject: 1977 BUDGET
TAGS: EFIN, IS
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